

FINANCE UPDATE

TRUST BOARD – 26th April 2012

1. Introduction

The Trust is required to deliver a balanced Income and Expenditure position in the year. This paper provides a description of the performance over the period April 2011 – March 2012.

2. Month 12 Cumulative Position

The Income and Expenditure position of the Trust is presented in the table below:

	Months 1- 12 Plan	Months 1- 12 Actual	Variance
	£000s	£000s	£000s
Income	283,708	293,349	9,641
Expenditure			
Pay	199,215	200,077	(862)
Non Pay	76,785	85,150	(8,365)
Reserves			
Finance Cost	14,208	14,564	(356)
Total Expenditure	290,208	299,971	(9,583)
	(6,500)	(6,442)	58
SHA Funding	6,500	6,500	-
Under / Over spend	-	58	58

As can be seen from the above at the end of the year the Trust had recorded a cumulative surplus amounting to £58,000.

3. Monthly Analysis – March

The “in month” position for the month of March is presented in the table below.

	Planned Position £000s	Actual £000s	Variance £000s
Income	26,989	30,593	3,604
Expenditure			
Pay	17,098	17,752	(654)
Non Pay	7,193	10,783	(3590)
Reserves			
Finance Cost	1,201	1,276	(75)
Total Expenditure	25,492	29,811	(4,319)
Planned surplus	1,497	782	(715)

The Trust planned to deliver a surplus in the month of £1.497 million and actually recorded a surplus of £782,000. The reduced level of underspending, as compared with plan, in the month of March has occurred because the Trust has during the year been able to bring forward surpluses into earlier periods. This is illustrated in the Month by Month analysis below.

4. Month by Month analysis

The table below provides a description of the Income and Expenditure position of the Trust on a monthly basis.

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total April - Mar
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income	22,078	22,927	23,697	24,502	23,687	24,807	24,364	24,874	24,616	24,424	24,237	29,136	293,349
Expenditure													
Pay	16,244	16,478	16,575	16,261	16,363	16,709	16,699	16,752	16,675	16,513	17,056	17,752	200,077
Non Pay	6,613	6,169	6,069	7,023	6,711	6,741	6,495	7,082	7,004	7,072	7,388	10,783	85,150
Reserves													
Finance Cost	1,146	1,220	1,179	1,185	1,269	1,404	1,224	1,225	1,162	1,174	1,100	1,276	14,564
Total Expenditure	24,003	23,865	23,825	24,569	24,343	24,854	24,418	25,059	24,841	24,759	25,544	29,811	299,971
	(1,925)	(938)	(128)	33	(656)	(47)	(54)	(185)	(225)	(335)	(1,307)	(675)	(6,442)
SHA Funding	458	458	458	458	459	458	458	459	458	458	460	1,457	6,500
Under / Over spend	(1,467)	(480)	330	491	(197)	411	404	274	233	123	(847)	782	58
Planned Position	(1,486)	(261)	665	338	41	135	277	241	(374)	(470)	(601)	1,497	-
Variation from plan	19	(219)	(335)	153	(238)	276	127	33	607	593	(246)	(715)	58

The table shows that having recorded a deficit in the opening two months of the year of £1.947 million, in the period June – March the Trust has recovered the overspend and is able to post a cumulative surplus at the end of March. In eight of these ten months the Trust presented a positive run rate.

Further, in setting the plan the Trust had expected to present a cumulative deficit, throughout the 2011/12 year, and over the period December to February this deficit was expected to rise progressively so that by the end of February the Trust cumulative deficit would amount to £1.497 million. The plan then assumed this deficit would be corrected in full through over performance in the month of March.

The actions taken during the year, ensured that surpluses planned for the month of March were brought forward. As evidenced by the existence of positive run rates consistently through the year and the position at the end of February which showed the Trust to have a cumulative Income and Expenditure some £773,000 ahead of plan. As such in reporting a surplus that was lower than planned in March this situation was largely expected.

Income and Expenditure Position – Key Messages

- *The Trust recorded a surplus at the end of March amounting to £58,000; the Trust had planned to record a break even position.*
- *In the month of March a surplus of £782,000 was recorded, the plan for the month of March was to present a surplus of £1.497 million.*

5. Understanding what happened in the month

The month 12 position is distorted by a series of adjustments associated with the end of year process. In order to understand the in month position it is therefore necessary to adjust for such items.

5.1 Income

The table below provides reconciliation to the Forecast outturn position as presented in the previous month

	£000s
Month 11 Forecast Outturn	296,144
Increased Income PCTs	2500
Deferred Income reclassification	2764
Deferred Income Provision - UGMS	(764)
Increased Provision for Powys	(1240)
Monthly over performance	445
Actual end of Year Outturn	299,849

- Increased Income PCT's – the Trust has received further funding amounting to £2.5 million from the PCT's to support the cost of excess costs associated with High Cost Drugs, increased performance and a revision to the locally agreed rules in respect of the level of payment for activity delivered in year.
- Deferred Income reclassification – throughout the year deferred Income has been written off against Non Pay spending. The correct accounting treatment is to instead transfer the sum into Income.
- Deferred Income reprovision – UGMS – The Trust has decided to continue to provide for a potential claim in respect of UGMS funds.
- Increased provision – Powys HB – The Trust has an ongoing contractual dispute with Powys HB. In the year to February the Trust had provided for a settlement costing the Trust £550,000. In closing the accounts for the year it has been decided to increase this sum to £1.79 million.
- Monthly over performance – In the Month of March the Trust recorded an in month gain amounting to £445,000. This gain has occurred because the Trust has reached an agreement in respect of an outstanding claim relating to Trust accommodation. This gain amounts to £233,000. In addition the Trust has been able secure further funding amounting to £212,000 to cover costs associated with High Cost Drugs from the Regional Specialised Services Agency.

5.2 Pay expenditure

In the month of March total Pay spending amounted to £17.751 million.

	£000s
Monthly Pay spend – March	17.751
Provisions	(0.470)
	17.281
Monthly Pay spend – February	17.056
Increased Monthly cost	225

- Provisions – The Trust has allowed for the cost of outstanding pay claims amounting to £470,000

- Increased costs – During the Month the Trust increased the cost of Pay by £225,000. This increase has occurred because in the month the number of staff employed within the Trust (as both Temporary and Permanent staff) increased by 39.64 posts (since February the number employed within the Trust has increased by 100.58 wte posts).

	February WTE	March WTE	Variance – March and February WTE	Month 10 budgeted WTE	Variance – March and Budgeted for 2012/13 WTE
Temporary	4520.20	4533.83	13.63	4497.97	35.86
Permanent	403.56	429.57	26.01	364.85	64.72
	4923.76	4963.40	39.64	4862.82	100.58

5.3 Non pay Expenditure

The table below provides reconciliation to the Forecast outturn position as presented in the previous month.

	£000s
Month 11 Forecast Outturn	82,234
Deferred Income reclassification	2764
CRC Levy	124
Other provisions	28
Actual end of Year Outturn	85,150

- Deferred Income reclassification – as described in the above the accounting treatment associated with the writing off of Deferred Income has been altered. This has the effect of Increasing Non pay expenditure by £2.764 million.
- Climate Change Levy – A provision has been included to cover a potential levy placed upon the Trust in respect of Climate change legislation.

6. Impact upon the 2012/13 year

6.1 Income

As stated in the above the Trust over recovered in respect of Income by £445,000 in the month. Of this sum, it is believed that this over recovery is non recurrent and will not provide financial benefit into the 2012/13 year.

6.2 Pay Expenditure

The growth of staffing levels within the month and also by comparison with the Budgeted level (Month 10) is a source of considerable concern. In approving a budget for the 2012/13 year, allowance had been made for increased costs associated with the growth in staff between the months of February and January. This sum amounted to £1.72 million or £143,000 per month. Given the monthly increase between the months of March and February, this would increase costs, beyond the agreed budgeted levels for 2012/13, by a further £2.7 million.

During March however, the level of spending in respect of waiting times increased by £116,000 when compared with February. On the basis that this level of increased spending, was attributable to achievement of RTT Targets and /or back dated claims, discounting for this sum reduces the cost pressure by £1.4 million, and as such the increased recurrent cost pressure to the Trust (above budgeted levels approved for 2012/13) as a consequence of spending in the Month of March amounts to £1.3 million.

6.3 Non Pay Expenditure

In the month of March the level of spending attributable to the month amounted to £10.783 million. This level of spending, as described in the above is however distorted by the requirement to transfer the gain associated with the write off of deferred Income from Non Pay to Income. Accordingly after adjusting for the £2.764 million attributable to this change, this then reduces the level of spending in the month to £8.009 million.

In addition to this change, the level of gain attributable to Balance sheet write offs correctly accounted as a Non pay gain, had been disproportionately allocated into the months of April to February by £780,000. Allowing for this adjustment, this then results in an actual level of Non Pay spending charged to the Income and Expenditure account in the month amounting to £7.229 million.

An examination of the sum charged to the Income and Expenditure, identifies that the level of spending in the month has been reduced because the level of spending has been reduced because stock levels had increased substantially in the year. The level of stock increase amounts to £693,000. Discounting for this non recurrent gain, and the underlying level of spending in the month then increases to £7.922 million.

In developing the Non Pay budget for the 2012/13 year, it had been recognised that Non Pay Spending varied on a monthly basis, and as such in order to set the budget it was better to do so by using a methodology that sought to address the variation in spending. The methodology used applied a three month moving average.

	April - June	May - July	June - Aug	July - Sept	Aug - Oct	Sept - Nov	Oct - Dec	Nov - Jan	Dec - Feb	Jan - Mar
Monthly spend based upon 3 month moving average - £000's	6,491	6,730	6,966	7,074	6,980	7,159	7,322	7,598	7,731	7,602

The Budget for the 2012/13 year was initially based upon a three month average over the period November to January that assumed an average monthly level of non pay spending amounting to £7.598 million. Spending in the month of February increased substantially with the effect that the three – month moving average increased to £7.731 million and introduced a further annual cost pressure amounting to £1.325 million.

Applying the sum charged to the Income and Expenditure account in the month of March of £7.229 million, and as such incorporating the stock gain, the 3 month average methodology reduces the average monthly pay spend to £7.602 million.

In approving the budget for the 2012/13 year, the increased cost pressure of £1.325 million was recognised. Within the Cost Improvement target for the year however it was assumed that actions could be taken to reduce spending levels so as to be consistent with the average monthly spend over the period November to January. Given the spending in March it is now possible to remove the requirement to budget for the cost pressure of £1.325 million.

Understanding what happened in the month – Key Messages

- *Income – In the month of March the underlying level of Income received increased by comparison with Plan by £445,000. This increase was non recurrent and so does not provide a gain into the 2012/13 year.*
- *Pay Expenditure – Pay spending increased in the month by comparison with the month of February by £225,000, as a consequence of the Trust increasing the number of staff employed by 40 posts. Allowing for the increased costs associated with the achievement of RTT and applying March spending levels to the 2012/13 year then increases costs in the 2012/13 year by £1.3 million beyond approved budgeted levels.*
- *Non Pay Expenditure – Non Pay spending in the month reduced significantly, principally as a result of incorporating the benefit arising from increased stock levels. Using spending within March and then adopting the 3 month average methodology as a basis for determining the Non Pay budget, allows the Trust to remove a cost pressure amounting to £1.325 million that had been assumed when approving the annual budget at the March Trust Board.*

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20th April 2012